

January 4, 2005

Mr. Hearing Officer
c/o Dairy Marketing Branch
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

**Re: Alternative Proposal for February 1, 2005 Hearing to Consider
Amendments to the Stabilization and Marketing Plans for Market
Milk for the Northern California and Southern California Marketing
Areas – Class 2, 3 and 4a Pricing Provisions**

Dear Mr. Hearing Officer:

California Dairies, Inc. (CDI) on behalf of its producer – Members, respectfully submits this alternative proposal for amendments to the Stabilization and Marketing Plans.

CDI is a full service milk marketing cooperative with five (5) manufacturing plants that are owned by approximately 700 dairy farmer Members collectively producing over 15 billion pounds of milk per year or 42% of the milk produced in California.

The reason for our alternative proposal is to make cost justified changes to the Class 4a manufacturing allowances.

We are asking the Department to amend the manufacturing allowances used in the calculation of Class 4a milk prices based on information included in the Department's most recent manufacturing cost data released December 21, 2004. CDI respectfully requests that the manufacturing allowance for butter be increased to \$0.157 per pound and that the manufacturing allowance for nonfat powder be increased to \$0.165 per pound. These changes would provide make allowances that would cover the cost of 80% of the butter and 80% of the nonfat powder produced during the cost study period.

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Additionally, we are asking the Department to amend the "f.o.b. California Price Adjuster" for butter to \$0.0315 per pound. This is the weighted average price difference as we calculated (Exhibit #1) from the Department's recent "Addendum to the December 2004 study comparing CME and California Butter and Cheese Prices".

Attached (Exhibit #2) are our proposed language changes to the Northern California and Southern California Stabilization and Marketing Plans.

Respectfully submitted,

CALIFORNIA DAIRIES, INC.



Gary L. Korsmeier
President and Chief Executive Officer

Cc: Mr. David Ikari, Chief - Dairy Marketing Branch
Mr. Richard Cotta - CDI
Mr. Joe L. Heffington - CDI

EXHIBIT # 1

CALIFORNIA DAIRIES, INC. CALIFORNIA AND CME PRICES AND PRICE DIFFERENTIALS BUTTER

	CME	California	Differential California less CME	Volume	33 Months Weighted
2002 Jan	1.350	1.315	(0.035)	12,016,583	(0.0018)
Feb	1.254	1.221	(0.033)	11,310,319	(0.0016)
Mar	1.248	1.218	(0.030)	9,781,987	(0.0012)
Apr	1.184	1.141	(0.043)	12,351,060	(0.0022)
May	1.068	1.022	(0.046)	12,805,952	(0.0025)
Jun	1.045	1.015	(0.030)	7,198,343	(0.0009)
Jul	1.026	0.994	(0.032)	7,160,962	(0.0010)
Aug	1.000	0.962	(0.038)	9,950,268	(0.0016)
Sep	0.959	0.934	(0.025)	16,540,320	(0.0017)
Oct	1.023	0.985	(0.038)	10,478,358	(0.0017)
Nov	1.037	0.993	(0.044)	5,620,527	(0.0010)
Dec	1.114	1.087	(0.027)	6,787,918	(0.0008)
2003 Jan	1.098	1.063	(0.035)	10,246,130	(0.0015)
Feb	1.047	1.039	(0.008)	7,814,507	(0.0003)
Mar	1.082	1.053	(0.029)	8,783,267	(0.0010)
Apr	1.092	1.058	(0.034)	1,519,855	(0.0002)
May	1.089	1.058	(0.031)	9,560,387	(0.0012)
Jun	1.110	1.071	(0.039)	9,903,444	(0.0016)
Jul	1.183	1.131	(0.052)	4,843,315	(0.0010)
Aug	1.184	1.132	(0.052)	3,754,700	(0.0008)
Sep	1.165	1.126	(0.039)	6,433,283	(0.0010)
Oct	1.183	1.156	(0.027)	5,082,360	(0.0006)
Nov	1.200	1.171	(0.029)	3,981,878	(0.0005)
Dec	1.296	1.253	(0.043)	3,093,589	(0.0006)
2004 Jan	1.374	1.371	(0.003)	7,648,451	(0.0001)
Feb	1.658	1.629	(0.029)	5,072,777	(0.0006)
Mar	2.128	2.026	(0.102)	6,074,863	(0.0026)
Apr	2.205	2.149	(0.056)	2,478,905	(0.0006)
May	2.096	2.129	0.033	4,516,876	0.0006
Jun	1.916	1.922	0.006	4,632,027	0.0001
Jul	1.782	1.800	0.018	4,946,831	0.0004
Aug	1.563	1.548	(0.015)	3,995,216	(0.0002)
Sep	1.737	1.720	(0.017)	3,348,106	(0.0002)

33 Month Average

(0.0315)

Exhibit #2

California Dairies, Inc.
Proposed Language Changes to the Northern California and Southern California
Stabilization and Marketing Plans

Section 300.0

- (D) The minimum prices to be paid for components used for Class 4a shall be computed as follows:
- (1) For all milk fat, not less than the price per pound computed by the formula using the butter price, less an f.o.b. California price adjuster of ~~three and thirty-two hundredths cents (\$0.0332)~~ three and fifteen hundredths cents (\$0.0315), less a manufacturing cost allowance of ~~thirteen and two-tenths cents (\$0.132)~~ fifteen and seven tenths cents (\$0.157), and the result multiplied by a yield factor of one and two-tenths (1.2).
 - (2) For all milk solids-not-fat, not less than the price per pound computed by the formula using the nonfat dry milk price, less a manufacturing cost allowance of ~~fifteen cents (\$0.15)~~ sixteen and five tenths cents (\$0.165), multiplied by a yield factor of one (1.0).